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SUBJECT: OIL, GAS, AND ELECTRICITY FOR IRAQ: ENERGY
MINISTER DISCUSSES GOJ OPTIONS AND PLANS

REF: AMMAN 2367

1. (SBU) SUMMARY: Jordanian Minister of Energy Mohammed Bataineh told DCM on October 14 that little progress beyond statements of principle has been made in talks on the provision of Iraqi oil to Jordan. He expressed pride at the completion of the first phase of the Egypt-Jordan gas pipeline and conversion of the Aqaba power station to gas, and was optimistic about the extension of the pipeline and gas supplies to northern Jordan. He discussed outstanding and upcoming tenders for the refurbishment of Jordan's Zarqa oil refinery and the creation of new power generating facilities. Finally, he alerted Emboffs to the possibility that the Syrian Minister of Electricity and Turkish Minister of Energy would be in Jordan next month to discuss the activation of a six-nation power grid including Iraq - which would allow Iraq to take excess power from surrounding Levantine states in larger quantities - and asked for U.S. assistance in convincing the Turkish Minister of Energy to support such a reactivation. END SUMMARY.

OIL SUPPLIES

2. (SBU) Bataineh expressed his desire - so far frustrated - to begin receiving shipments of Iraqi oil. The post-war arrangement, in which Jordan is receiving its entire allotment of crude oil by way of the port of Aqaba, has been afflicted with constant problems, from bottlenecks at Aqaba (where there is only one jetty used for offloading crude, vegetable oil, and sulpho-chemicals) to environmental damage and road degradation caused by trucks carting fuel north to Jordan's refinery at Zarqa. (Reftel) The only long-term solution to this problem would be a switch back to Iraq as primary supplier or the creation of an Aqaba-Zarqa pipeline, which would cost a substantial amount and take 2-3 years to complete. Periodic talks with the Iraqi Oil Ministry - most recently a meeting yesterday in Amman with Iraqi Minister Dr. Ibrahim Bahr Al-Uloum - have yielded little beyond a statement that in principle, Iraq will provide Jordan with oil by way of a pipeline out of Iraq as soon as it is practicable to do so.

3. (SBU) Practically speaking, the only current way for Iraq to export to Jordan would be by way of trucks sent from the southern fields by way of the highly dangerous Iraqi Highway 1, and Bahr Al-Uloum refused to approve this option based on the length and danger of the route. Jordan is still receiving subsidized oil both from Saudi Arabia and Kuwait (Reftel), and while Kuwait's provision is scheduled to end at the end of October, the GOJ is negotiating to extend the provision. Bataineh admitted that he was not sure whether UAE cash payments that Jordan had been receiving in lieu of oil during the war were still coming in, though he had heard Finance Minister Marto complain in a meeting that he had not received the UAE's payment for September.

NATURAL GAS PIPELINE

4. (SBU) Bataineh called the recently completed gas pipeline between Egypt's Mediterranean coast and Aqaba "one of the most successful projects in the region" and proudly projected that all five turbines of the Aqaba power station would be using gas by next month (three are already using gas). He said that the second phase of the project, running from Aqaba to the Syrian border, would run along the line of the eastern "Desert Highway," although the Ministry is holding information on the route closely until all right-of-way had been purchased from private landholders, to avoid paying inflated prices. It will be built by the same Egyptian consortium, EPEG, that built the initial line.

5. (U) EPEG will also receive an 18-year concession to supply gas to large industries and other major users, but this has not dampened the enthusiasm of other companies to use the gas that will be provided. A Kuwaiti company has expressed interest in using the pipeline to supply a local gas network for residences in Amman. U.S. contractor Washington Group International is exploring the construction, with USTDA support, of a power plant that would supply the 220 MW used by the Dead Sea-area operations of mining companies.

Bataineh said that both companies will need to negotiate with the Egyptian consortium supplying the gas to determine the price that they will pay for it - once the right-of-way is obtained, GOJ plans to step out of the picture.

UPCOMING ENERGY PROJECTS

16. (SBU) Bataineh bemoaned the poor state of the Jordan Petroleum Refinery Company's refinery in Zarqa, and said that the GOJ is looking at two ways of addressing it. He is currently considering a proposal for a new refinery to be built near Aqaba, which he says he will only approve if the final plans place it at least 40 km from the coast and up to standards of export-quality oil production. More immediately, the GOJ has consultants conducting a feasibility study of a USD 500-600 million upgrade of the Zarqa refinery and the simultaneous divestiture of assets in the Zarqa refinery complex, such as a shipping service, that are not directly related to the refining of crude oil. GOJ has released a tender for the building of a new power station south of Amman, and is studying the feasibility of a new independent power project to be begun in 2007.

ELECTRICITY PRIVATIZATION

17. (SBU) Jordan is moving ahead with plans to privatize portions of its electricity sector, Bataineh said; the state-owned enterprise that generates power and two power distribution SOEs will hopefully be ready to be sold off by April 2004, leaving the GOJ with only the state-owned power transmission utility. Bataineh regretted that the post-September 11 investment climate had delayed the privatization process by scaring off potential buyers of the companies, but said that consultant Rothschild Associates is moving ahead with its study of the feasibility of privatization and should have its findings in soon. He also noted that the former SOE handling power distribution to the central portion of Jordan has already been 100 percent privatized.

POWER FOR IRAQ

18. (SBU) Bataineh raised the subject of power supply to Iraq, mentioning his regret that Jordan had no direct grid connections with Iraq and could therefore not supply Iraq with excess power to make up for its substantial power shortfall. He said, however, that Iraq does have connections with Turkey and Syria, and that it had at one point been part of a six-nation power grid (also including Egypt and Lebanon). If the grid were to be reactivated, he said, Iraq would be able to obtain considerable excess capacity from the five other countries on the grid. At the end of the meeting, Bataineh received a telephone call, then informed us brightly that the Syrian Minister of Electricity had agreed to meet with him and the Iraqis in Amman in November to discuss reactivating the six-nation grid. In this context, he asked that we help in getting the Turkish Minister of Energy on board for the meeting, noting past political obstacles to "turning on the switch" of the electricity grid between Turkey and Syria and saying that his participation would be crucial if the meeting was to achieve anything.

COMMENT AND ACTION REQUEST

19. (SBU) Jordan is proceeding with plans to modernize and diversify its energy sector, despite the difficulties of problematic fuel supplies and skittish foreign investors. Post requests CPA and Department guidance on how to proceed on the proposed November meeting to reintegrate Iraq into the six-nation power grid.

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